



The Advertising Council
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November 17, 2010

Fiscal Accountability

The Ad Council is committed to making the most effective and efficient use of all the resources it receives and fully discloses financial information pertaining to the broad scope of Ad Council programs and activities.

The Ad Council's management is responsible for the preparation of financial statements on the following pages which conform to generally accepted accounting principles in the United States of America. The financial statements for the fiscal year ended June 30, 2010 are presented on the following pages and include:

- Statement of Financial Position;
- Statement of Activities and Changes in Net Assets;
- Statement of Cash Flows; and
- Notes to Financial Statements

The Ad Council has engaged PricewaterhouseCoopers LLP as its independent auditor and their financial audit report is presented on the following pages.

In addition, OMB Circular A-133 requires the Ad Council to report billing activities from Federal government-sponsored campaigns. The Ad Council provides this report as well as other financial information and disclosures to the Department of Defense – Defense Contract Audit Agency.

The Ad Council's management ensures that an organization-wide internal control structure is in place to provide reasonable assurances that financial records are reliable and that assets are protected. Annually, the Audit Committee appoints independent auditors and reviews matters affecting the Ad Council's financial operation especially those affecting internal control structure and audits.

PricewaterhouseCoopers has unrestricted access to the committee to discuss the results of their work.

/s/ PC
Peggy Conlon
President & CEO

/s/ JF
Jon Fish
Executive Vice President &
Chief Financial Officer

The Advertising Council, Inc.

Financial Statements

June 30, 2010 and 2009



Report of Independent Auditors

To the Board of Directors of
The Advertising Council, Inc.:

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, the financial position of The Advertising Council, Inc. (the "Council") at June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

November 12, 2010

The Advertising Council, Inc.
Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 3,766,912	\$ 2,107,468
Investments	9,797,245	8,429,666
Accounts receivable (less allowance for doubtful accounts of \$392,126 and \$392,526, respectively)	9,170,359	11,730,717
Contributions receivable	1,584,275	652,400
Prepaid expenses and other current assets	258,947	300,414
Total current assets	<u>24,577,738</u>	<u>23,220,665</u>
Property and equipment, at cost		
Furniture and fixtures	1,210,880	1,210,880
Computer and telephone equipment	1,925,579	1,894,102
Leasehold improvements	3,276,493	3,276,493
	<u>6,412,952</u>	<u>6,381,475</u>
Less: Accumulated depreciation and amortization	<u>3,110,518</u>	<u>2,456,357</u>
Property and equipment, net	<u>3,302,434</u>	<u>3,925,118</u>
Total assets	<u>\$ 27,880,172</u>	<u>\$ 27,145,783</u>
Liabilities and Net Assets		
Current liabilities		
Notes payable - short term	\$ 400,000	\$ 400,000
Accounts payable	579,113	3,632,206
Accrued expenses and other current liabilities	4,501,839	3,679,086
Deferred revenue	2,902,341	3,645,327
Deposits from campaign sponsors	904,106	805,821
Total current liabilities	<u>9,287,399</u>	<u>12,162,440</u>
Notes payable - long term, net of current maturities	700,000	1,100,000
Other long-term liabilities	3,886,747	3,533,185
Accumulated Postretirement benefit obligation - long term	311,992	306,864
	<u>14,186,138</u>	<u>17,102,489</u>
Net assets		
Unrestricted	12,311,484	9,209,394
Temporarily restricted	1,382,550	833,900
Total net assets	<u>13,694,034</u>	<u>10,043,294</u>
Total liabilities and net assets	<u>\$ 27,880,172</u>	<u>\$ 27,145,783</u>

The accompanying notes are an integral part of these financial statements.

**The Advertising Council, Inc.
Statements of Activities and Changes in Net Assets
Year Ended June 30, 2010 and 2009**

	2010		2009	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Revenue				
Production and distribution campaign revenue	\$ 31,011,384	\$ -	\$ 31,011,384	\$ -
Contributions	5,694,430	775,000	6,469,430	150,000
Special events	2,028,813	458,000	2,486,813	376,000
Interest & other income	36,603	-	36,603	53,358
Grants from foundations for projects	306,832	-	306,832	180,737
Satisfaction of restrictions	684,350	(684,350)	-	(567,500)
Total revenue	39,762,412	548,650	40,311,062	(41,500)
Expenses				
Production and distribution	21,499,862	-	21,499,862	-
Salaries and related expenses	11,754,369	-	11,754,369	-
Office expenses	1,500,390	-	1,500,390	-
General and administrative	1,208,076	-	1,208,076	-
Special events	455,658	-	455,658	-
Depreciation and amortization	654,161	-	654,161	-
Expenses for foundation funded projects	260,349	-	260,349	-
Media development	78,928	-	78,928	-
Interactive services	63,795	-	63,795	-
Campaign management	174,197	-	174,197	-
Government and non-profit affairs	10,804	-	10,804	-
Creative services	97,746	-	97,746	-
Public relations	15,974	-	15,974	-
Fundraising	45,580	-	45,580	-
Total expenses	37,819,889	-	37,819,889	-
Excess (deficit) from operations	1,942,523	548,650	2,491,173	(41,500)
Actuarial (loss) gain on accumulated post retirement obligation	(1,558)	-	(1,558)	-
Investment Income / (Loss)				
Net realized gains / (losses) on investments	36,052	-	36,052	-
Net unrealized gains (losses) on investments	841,482	-	841,482	-
Net investment income	283,591	-	283,591	-
Total investment income / (loss)	1,161,125	-	1,161,125	-
Change in net assets	3,102,090	548,650	3,650,740	(41,500)
Net assets				
Beginning of year	9,209,394	833,900	10,043,294	875,400
End of year	\$ 12,311,484	\$ 1,382,550	\$ 13,694,034	\$ 833,900
				\$ 10,043,294

The accompanying notes are an integral part of these financial statements.

The Advertising Council, Inc.
Statements of Cash Flows
Year Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 3,650,740	\$ (693,639)
Adjustments to reconcile net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	654,161	719,717
Net realized and unrealized (gains) losses on investments	(877,534)	2,306,229
Changes in assets and liabilities		
Decrease (increase) in accounts receivable, net	2,560,358	(1,774,844)
(Increase) decrease in contribution receivable, net	(931,875)	1,121,377
Decrease (Increase) in prepaid expenses and other assets	41,467	(119,647)
(Decrease) increase in accounts payable	(3,053,093)	12,223
Increase (decrease) in accrued expenses	822,753	(765,192)
(Decrease) in deferred revenue	(742,986)	(190,068)
Increase in deposits from campaign sponsors	98,285	440,267
Increase (decrease) in other long-term liabilities	353,562	(1,126,883)
Increase (decrease) in accumulated post retirement obligations	5,128	(11,510)
Net cash provided by (used in) operating activities	<u>2,580,966</u>	<u>(81,970)</u>
Cash flows from investing activities		
Proceeds from sale of investments	1,655,693	2,794,751
Purchase of investments	(2,145,738)	(2,876,841)
Expenditures for property and equipment	(31,477)	(39,712)
Net cash provided used in investing activities	<u>(521,522)</u>	<u>(121,802)</u>
Cash flows from financing activities		
Repayments of note payable	(400,000)	(400,000)
Net cash used in financing activities	<u>(400,000)</u>	<u>(400,000)</u>
Increase (decrease) in cash and cash equivalents	<u>1,659,444</u>	<u>(603,772)</u>
Cash and cash equivalents		
Beginning of year	<u>2,107,468</u>	<u>2,711,240</u>
End of year	<u>\$ 3,766,912</u>	<u>\$ 2,107,468</u>

The accompanying notes are an integral part of these financial statements.

The Advertising Council, Inc.

Notes to Financial Statements

June 30, 2010 and 2009

1. Nature of Operations

The Advertising Council, Inc. (the "Council") is a nonprofit organization, which uses its resources to undertake and manage advertising campaigns of a public service nature on behalf of government and private organizations. The Council is supported in its work by contributions from both public and private sectors.

2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Council have been prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) within the United States pursuant to ASC (Accounting Standards Codification) Topic 958, Not-for Profit Entities.

Production and Distribution of Public Service Campaigns

Production and distribution campaign revenue consist of direct and indirect charges to campaign sponsors. Direct costs incurred on behalf of sponsors' campaigns are for the production, distribution and evaluation of advertising materials. These production and distribution costs are invoiced to the sponsors' campaigns and are reflected as revenue in the statements of activities when incurred and when documentation supporting the services performed has been received by the Council. Indirect costs are reimbursed at a percentage of allowable direct costs by private and government sponsors and are also recognized as income when earned. A fixed fee for performed services may also be charged to the sponsor and revenue is recognized in accordance with the sponsors' contractual arrangement.

Campaign Sponsor Advances and Deposits

Advances received from sponsors are recorded as deferred revenue, and represent future revenue to the Council that will be recognized when the services are performed and when documentation supporting the services has been received by the Council.

Deferred revenue also consists of additional funds received in advance for specific sponsors' campaigns and in association with certain grant funded projects. These amounts represent future revenue to the Council and will be recognized as income when the respective services are performed.

Contractual deposits received from sponsors are recorded as deposits from campaign sponsors until an associated sponsors' campaign has been completed. Upon completion of campaign activities, these deposits may be applied to the related campaign costs, but they are generally refunded to the sponsor.

Contributions and Special Events

All contributions, including donated services and products, are considered to be available for unrestricted use, unless specifically restricted by the donor, and are recognized in the statements of activities as unrestricted revenue in the period pledged. Unrestricted net assets represent resources over which the Council has full discretion with respect to use. Special events include contributions earmarked for the Council's annual dinner or other Council sponsored events and like contributions, may be classified as unrestricted or temporarily restricted sources of revenue.

The Advertising Council, Inc.
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Temporarily restricted net assets represent resources which have been specifically restricted by a donor as to purpose and/or the passage of time. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished or when a prescribed length of time has passed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as satisfaction of restrictions. It is the Council's policy to record temporarily restricted contributions as unrestricted revenue when the contributions are made and the restriction is satisfied in the same reporting period.

Temporarily restricted net assets consist of cash and pledges received that are restricted for the Council's following purposes:

	June 30,	
	2010	2009
Annual Dinner - Fiscal 2012	\$ 50,000	
Annual Dinner - Fiscal 2011	408,000	
Annual Dinner - Fiscal 2010		\$ 426,000
Fiscal 2012 Operations	350,000	
Fiscal 2011 Operations	475,000	50,000
Fiscal 2010 Operations		197,500
Internet Safety Coalition Project	99,550	150,400
Department of Energy - Energy Efficiency Campaign		10,000
	\$ 1,382,550	\$ 833,900

In fiscal 2010 and 2009, \$684,350 and \$567,500, respectively, have been reclassified to unrestricted net assets as the related restrictions have been satisfied.

At June 30, 2010 cash and cash equivalents include \$582,550 of cash received that is limited as to its use because of donor imposed restrictions, and which is being held in connection with the Council's fiscal 2011 and 2012 operations, for the Annual fiscal 2011 and 2012 Dinner and Internet Safety Coalition. At June 30, 2009 cash and cash equivalents include \$538,900 of cash received that is limited as to its use because of donor imposed restrictions, and which is being held in connection with the Council's fiscal 2010 and 2011 operation, Dinner and Internet Safety Coalition.

Grants

Grants are awarded to the Council by foundations for research and special projects. Revenue is recognized as expenses are incurred by the Council. Grant revenue and expenses for foundation funded projects are stated separately on the statements of activities and changes in net assets whenever such grants are awarded for projects other than public service messages.

Cash Equivalents and Investments

The Council maintains its operating funds primarily in highly liquid money market funds that are classified in the statements of financial position as cash equivalents. The Council's policy is that earnings on cash and cash equivalents are reinvested in the operating funds of the Council. Such interest is classified as unrestricted revenue on the statements of activities.

The Advertising Council, Inc.

Notes to Financial Statements

June 30, 2010 and 2009

Investments are stated at fair market value and include mutual funds, money market funds, and asset funds concentrated in debt and equity securities managed by a professional investment advisor in accordance with investment guidelines established by the Council's Board of Directors. Investment activity within the portfolio is limited to trades and sales at the discretion of the Council's financial advisor. The transfer of operating funds to the portfolio requires approval of the Council's Finance Committee. It is the Council's policy that gains and losses on investments and net investment income are not considered part of the excess or deficit from operations and, therefore, are not included as a component of operating revenue on the statements of activities and changes in net assets. The Council was charged investment fees of \$56,127 and \$44,513 on the statements of activities for the years ended June 30, 2010 and 2009, respectively.

At June 30, 2010 and 2009, investments also include \$2,118,947 and \$1,789,623, respectively, related to mutual fund investments held in connection with non-qualified deferred compensation and supplementary executive retirement plans for certain executives of the Council (see Note 5.).

Property and Equipment

Furniture, fixtures and telephone equipment are depreciated using the straight-line method over their useful lives, which approximate five years. Computer hardware and software, including website software development costs, are depreciated using the straight-line method over their useful lives, which approximate three years. Leasehold improvements are amortized over their useful life or over the remaining life of the related office lease, whichever is shorter.

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses recognized during the reporting periods, as well as to provide for disclosure of any contingent items. Actual amounts could differ from those estimates.

Concentrations of Credit Risk

The Council maintains cash accounts at various financial institutions. The value of these accounts, individually and in the aggregate, typically exceeds the amount insured by the FDIC.

New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC and the Hierarchy of GAAP (Codification). The Codification is now the source for GAAP recognized by the FASB for authoritative United States GAAP. Effective July 1, 2009, references to the legacy GAAP on this report have been replaced by references to the Codification, where appropriate. The adoption did not impact the Council's financial position or results of operations.

The Advertising Council, Inc.

Notes to Financial Statements

June 30, 2010 and 2009

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, which amended guidance to enhance disclosure requirements related to fair value measurements. The amended guidance for Level 1 and Level 2 fair value measurements will be effective for the Council as of July 1, 2010. The amended guidance for Level 3 fair value measurements will be effective for the Council as of July 1, 2011. The guidance requires disclosures of amounts and reasons for transfers in and out of Level 1 and Level 2 recurring fair value measurements as well as additional information related to activities in the reconciliation of Level 3 fair value measurements. The guidance expanded the disclosures related to the level of disaggregation of assets and liabilities and information about inputs and valuation techniques. The Council does not expect the adoption of the guidance for Level 1 and Level 2 fair value measurements or the Level 3 fair value measurements to have a significant impact on its financial statements.

3. Investments

Effective July 1, 2008, the Council adopted ASC Topic 820, "Fair Value Measurements". ASC Topic 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined by ASC Topic 820 as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The investments at June 30, 2010 and 2009 were recorded at fair market value.

The provisions of ASC Topic 825 "The Fair Value Option for Financial Assets and Financial Liabilities" were effective July 1, 2008. ASC Topic 825 gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The Council did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value. ASC 820 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under ASC Topic 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Council for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

The Advertising Council, Inc.
Notes to Financial Statements
June 30, 2010 and 2009

- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2010 and 2009, by caption on the statement of financial position by the ASC Topic 820 valuation hierarchy defined above

At June 30, 2010 and 2009, respectively, the Council's investments consist of the following investment funds and are all at level 1 valuation methodologies. While the Council has marked all their investment balances to market there is a risk that future market conditions could lead to unrealized and/or realized losses in subsequent periods.

	Year Ended June 30,	
	2010	2009
Money funds	\$ 72,700	\$ 26,172
Marketable equity securities funds	2,851,191	2,480,516
Intermediate duration bond funds	3,286,019	2,799,186
International and emerging markets equities funds	986,222	907,251
Real estate insurance trust funds	482,166	426,918
Total	<u>7,678,298</u>	<u>6,640,043</u>
Participant discretionary retirement investment funds, Executive Deferred Compensation and SERP (Note 5)	<u>2,118,947</u>	<u>1,789,623</u>
	<u>\$ 9,797,245</u>	<u>\$ 8,429,666</u>

For the year ended June 30, 2010 and 2009, realized and unrealized gains (losses), interest and dividend income are summarized below:

	Year Ended June 30,	
	2010	2009
Realized and unrealized gains (losses)	\$ 877,534	\$ (2,306,229)
Dividend and interest income	283,591	342,903
Total	<u>\$ 1,161,125</u>	<u>\$ (1,963,326)</u>

The Advertising Council, Inc.
Notes to Financial Statements
June 30, 2010 and 2009

4. Functional Classification of Expenses

The Council's functional classification of expenses for the year ended June 30, 2010 with comparative totals for the year ended June 30, 2009 is as follows:

	Program Services	Management and General	Fund Raising	Year Ended June 30,	
				2010	2009
Production and distribution	\$ 21,499,862	\$ -	\$ -	\$ 21,499,862	\$ 23,445,509
Salaries and related expenses	7,208,330	3,438,657	1,107,382	11,754,369	11,651,497
Office expenses	1,025,796	405,101	69,493	1,500,390	1,561,030
General and administration	24,920	1,183,156	-	1,208,076	1,181,337
Special events	-	-	455,658	455,658	477,607
Depreciation and amortization	-	654,161	-	654,161	719,717
Expenses for foundation funded projects	260,349	-	-	260,349	180,737
Media development	78,433	495	-	78,928	131,128
Interactive services	62,938	857	-	63,795	26,345
Campaign management	173,189	1,008	-	174,197	562,098
Government and non-profit affairs	10,260	544	-	10,804	5,830
Creative services	97,746	-	-	97,746	34,002
Public relations	9,130	6,844	-	15,974	51,654
Fundraising	-	-	45,580	45,580	55,763
For the year ended June 30, 2010	<u>\$ 30,450,953</u>	<u>\$ 5,690,823</u>	<u>\$ 1,678,113</u>	<u>\$ 37,819,889</u>	
For the year ended June 30, 2009	<u>\$ 33,340,413</u>	<u>\$ 5,112,792</u>	<u>\$ 1,631,049</u>		<u>\$ 40,084,254</u>

5. Employee Benefits

Employee benefits are included within salaries and related expenses in the statement of activities and consist of payroll taxes, employee health, dental and other benefits, and the following employee retirement plans.

Defined contribution benefit plan

The Council maintains a defined contribution benefit plan (the "plan") for all eligible employees. The Council contributed 7% of an employee's covered compensation to the plan for each of the years ended June 30, 2010 and 2009, respectively. Expense related to this plan was \$540,000 and \$455,165 for the years ended June 30, 2010 and 2009, respectively. Certain highly compensated employees, as defined by the plan document, receive additional compensation for the portion of the current year's contribution that exceeds the IRS' individual participant contribution limits. The expense associated with employees meeting this qualification was \$60,857 and \$66,496 for the years ended June 30, 2010 and 2009, respectively. In addition, the Council accrued \$81,833 at June 30, 2009 to provide for prior years' contribution in accordance with the plan document.

Deferred compensation

The Council maintains a non-qualified deferred compensation plan that permits certain executives to defer all or a portion of their incentive compensation amounts received which could be invested in mutual funds selected by the executives under the guidelines of the plan. During fiscal 2009, the Council invested the 2008 deferred compensation amounts in mutual funds selected by the executives under the guidelines of this plan. At June 30, 2010 and 2009, these investments and their corresponding liabilities have been recorded in the statements of financial position at fair market value of \$930,962 and \$858,826, respectively. The realized gains (losses) on these funds were \$0 and \$(3,033), unrealized gains (losses) were \$48,744 and \$(277,071), and the dividends earned were \$23,708 and \$7,173 for the years ended June 30, 2010 and 2009, respectively.

The Advertising Council, Inc.

Notes to Financial Statements

June 30, 2010 and 2009

Supplemental executive retirement plan

The Council maintains a supplemental executive retirement plan ("SERP") for members of its executive management. The SERP is a noncontributory defined contribution retirement plan providing for contributions to be made each year by the Council on behalf of the participants. The contributions are based on a percentage of participants' eligible compensation, as defined by the SERP. Contributions are to be invested in various mutual funds at the direction of the individual participant and held by the Council until the executive vests into the plan, which occurs at the latter of a.) five years of service with the Council, b.) the participant reaching age 55 or c.) June 30, 2008. The investments held in the plan as of June 30, 2010 and 2009 totaled \$1,187,985 and \$930,797 respectively. The realized gains (losses) on these investments were \$(3,756) and \$0, unrealized gains (losses) were \$37,613 and \$(262,266), and the dividends earned were \$16,561 and \$6,669 for the years ended June 30, 2010 and 2009, respectively. For the years ended June 30, 2010 and 2009, the Council incurred costs of \$364,800 and \$412,400 respectively, for participants of the SERP.

The assets for the deferred compensation and SERP plans are recorded at fair market value in accordance with ASC Topic 820 as part of the Council's investment balance. The realized and unrealized gains and (losses) on these investments are recorded as investment income (loss) in the company's statement of activities.

The Ad Council's deferred compensation obligation is measured at fair value of the amount owed to the employees, which is equal to the asset value during the years ended June 30, 2010 and 2009. The deferred compensation and SERP obligation is recorded in other long-term liabilities and changes in the fair value of that obligation is adjusted, with a corresponding charge (or credit) to salaries and related expenses in the statement of activities. The net debit (credit) to salaries and related expense for the years ending June 30, 2010 and 2009 was \$122,870 and (\$528,529), respectively.

During the year ending, June 30, 2010, the Council made distributions of \$205,630 from the SERP. During the year ending June 30, 2009, the Council made distribution from the deferred compensation plan and the SERP in the amount of \$533,116 and \$183,431, respectively.

Postretirement benefits

The Council had previously provided certain health care benefits for employees upon retirement. Effective June 30, 2002, health care benefits provided under the Council's plan were frozen for retirees and vested active employees, and no further benefits will accrue to participants.

In addition, retirees hired prior to October 1, 1989 received life insurance benefits through the Council upon retirement. The benefits of which are provided through an insurance company.

The cost of these benefit premiums are shared between the Council and the participants, and the Council's portion for the years ended June 30, 2010 and 2009 is reported within salaries and related expenses in the statement of activities. At June 30, 2010 and 2009, these plans are unfunded obligations of the Council and the amounts payable at each respective year end have been adjusted to the value computed by an independent actuary.

The Council accounts for its *Employer's Accounting for Defined Benefit and Other Postretirement Plans under ASC Topic 715*. ASC Topic 715 requires an employer to recognize the funded status of benefit plans, measured as the difference between plan assets at fair value and the projected benefit obligations, in the statement of financial position.

The Advertising Council, Inc.
Notes to Financial Statements
June 30, 2010 and 2009

The following information with respect to the plan as of and for the year ended June 30, 2010 and 2009:

	Year Ended June 30,	
	2010	2009
Change in Accumulated Postretirement Benefit Obligation (APBO):		
APBO Beginning of Year	\$ 327,618	\$ 339,128
Service cost	-	-
Interest cost	18,328	20,728
Participation contributions	-	-
Actuarial (gain) loss	1,667	(14,253)
Benefits paid	(18,437)	(17,985)
Special termination benefits	-	-
APBO End of Year	<u>329,176</u>	<u>327,618</u>
Change in Plan Assets:		
Fair value of plan assets, July 1	-	-
Actual return on plan assets	-	-
Employer contributions	18,437	17,985
Participants contributions	-	-
Benefits paid	<u>(18,437)</u>	<u>(17,985)</u>
Fair value of plan assets, June 30	<u>-</u>	<u>-</u>
Reconciliation of Unfunded Status:		
Unfunded status	(329,176)	(327,618)
Amounts Recognized in the Statement of Financial Position consist of:		
Current liabilities (shown in accrued expenses)	17,184	20,754
Long term liabilities	<u>311,992</u>	<u>306,864</u>
	<u>329,176</u>	<u>327,618</u>
Unrecognized Cumulative Net Gain	(39,104)	(41,483)
Net Periodic Postretirement Benefit Cost:		
Service cost	-	-
Interest cost	18,328	20,728
Amortization of unrecognized net gain	<u>-</u>	<u>-</u>
Net periodic postretirement benefit cost	<u>18,328</u>	<u>20,728</u>
Net effect of 1% increase in the healthcare costs trend rate:		
APBO at June 30	16,470	15,785
Service costs	-	-
Interest costs	824	908
Net effect of 1% decrease in the healthcare costs trend rate:		
APBO at June 30	(25,777)	(26,991)
Service costs	-	-
Interest costs	<u>\$ (1,289)</u>	<u>\$ (1,552)</u>

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The discount rate assumed in determining the accumulated postretirement benefit obligation is calculated in consideration of the Moody's Aa Bond rates and the discount assumed within the extended benefits payment schedule. The discount rate applied to the actuarial valuation was 5.0% and 5.75% as of June 30, 2010 and 2009, respectively. The health care cost trend rate assumed for fiscal year 2010 and 2009 was nine percent (9.0%) respectively, declining by one per cent per year (1%) to a rate of five percent (5.0%) by year 2015 and 2014, respectively, and remaining at 5% thereafter.

The following estimated future benefit payments are expected to be paid in the years indicated:

2011	\$	17,184
2012		18,731
2013		16,966
2014		16,458
2015		16,181
2016 - 2020		74,946

6. Line of Credit

The Council has a line of credit agreement with a financial institution for the purpose of financing short-term working capital needs. The unsecured agreement has a \$2.0 million borrowing base, bears interest at the LIBOR Market Index rate plus 1.50% and expires on March 1, 2011. At June 30, 2010 and 2009, no amounts were outstanding against this line of credit.

The agreement stipulates that the Council must obtain approval from the financial institution prior to committing to future encumbrances in excess of \$100,000. In June 2010, the Council modified the line of credit and as a result removed the debt service coverage ratio and leverage ratio and replaced with an unrestricted liquidity ratio as defined in the agreement. In addition, the Council must remit interim and annual financial statements as prescribed in the agreement. See Note 10 with respect to an irrevocable stand by letter of credit for the Council's leases.

7. Term Note Payable

Effective March 2008, the Council converted an outstanding line of credit obligation of \$2,000,000 to a term note. This amount represents borrowings to partially finance capital improvements needed for its office space occupied during the fiscal year ended June 30, 2008 (Note 10). The note is collateralized by the Council's corporate investment portfolio and bears monthly payments of interest at the LIBOR Market Index rate plus 0.25% (0.60 % at June 30, 2010). In July, 2010, the security interest changed to a \$1.2 million money market account. The note provides for prepayment of principal amounts outstanding under this agreement without penalty to the Council. Principal repayments in equal consecutive monthly installments of \$33,333 commenced April 1, 2008 and will continue through the April 1, 2013 expiration date of this agreement, or sooner if the Council pays the outstanding principal balance.

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Interest expense incurred and paid was \$26,669 and \$31,457 for the year ended June 30, 2010 and 2009, respectively.

Future principal repayments under this note obligation are summarized by fiscal year as follows:

2011	\$ 400,000
2012	400,000
2013	<u>300,000</u>
	<u>\$ 1,100,000</u>

The financial institution providing the Council with this note payable also provides the Council with a line of credit agreement (Note 6). The borrowing agreement provides that the financial institution can apply a cross default provision to all the debt instruments written for the benefit of the Council.

8. Other Long-Term Liabilities

Other long-term liabilities of the Council consist of the following:

	Year Ended	
	June 30,	
	2010	2009
Deferred rental obligations (Note 10)	\$ 1,767,800	\$ 1,743,562
Deferred executive compensation plan (Note 5)	930,962	858,826
Supplemental executive retirement plan (Note 5)	<u>1,187,985</u>	<u>930,797</u>
	<u>\$ 3,886,747</u>	<u>\$ 3,533,185</u>

9. Tax Status

The Council is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and corresponding provisions of New York State law. Accordingly, no income tax expense or liability is recorded in the financial statements.

10. Commitments

Leases

During the fiscal year 2008 the Council relocated its New York office. In conjunction with this office space, the Council is obligated under an operating lease agreement which stipulates a monthly rental payments of \$78,256 commencing January 1, 2008, increasing to \$79,178 as of August 1, 2008 and then increasing annually thereafter for standard escalations through the initial lease term of ten years. The agreement also provides for an option to renew for an additional five year period through the year 2022. It is the intention of Council's management to exercise this option and the future rental payments disclosed below include the commitment for the renewal extension period.

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In accordance with GAAP, the rental commitment of this and the Council's Washington D.C. facility lease obligation are calculated through lease expiration. The total cost to the Council is recognized as expense in equal monthly amounts based on the full term of each respective agreement. The difference between the amount recorded to expense and the actual cash payments made by the Council on a monthly basis is recorded to the statement of financial position as deferred rent within other long-term liabilities (Note 8). In addition, the agreement was signed and made effective in March 2007, prior to the commencement of construction, and for the period of April 2007 through December 2007, the Council was not required to make monthly rental payments. The calculated value, as per GAAP, of rent expense for this nine period was \$736,546 and had been recorded to office expense within the statement of activities. The corresponding entry had also been recorded as deferred rent on the statement of financial position within long-term liabilities. Deferred rental obligation at June 30, 2010 and 2009 is \$1,767,800 and \$1,743,562, respectively (Note 8).

Lastly, in accordance with the agreement, the landlord provided the Council with a tenant's improvement allowance in the amount of \$931,920, which was recorded as deferred rent and which was reported on the statement of financial position within other long-term liabilities. In consideration thereof, the agreement stipulates that the Council maintain an irrevocable standby letter of credit with its financial institution in the amount of \$885,000 to serve as additional collateral to the landlord. The agreement provides that the amount required to be available under this letter of credit can decrease in various increments throughout the initial term of the agreement and until March 1, 2016, at which point the minimum security required will be \$293,000. In no event shall the security be reduced below this stipulated amount and the letter of credit shall not be extended beyond October 31, 2022.

The aggregate minimum annual office rental commitments of the Council's significant long-term leases are summarized by fiscal year as follows:

2011	\$ 1,106,126
2012	1,074,287
2013	1,058,906
2014	1,077,294
2015	1,090,089
Thereafter	<u>8,336,687</u>
	<u>\$ 13,743,389</u>

Rent expense incurred for the lease of office space was reported within the statement of activities as part of office expenses and was \$1,192,049 and \$1,231,406 for each of the years ended June 30, 2010 and 2009, respectively.

11. Subsequent Events

The Council has evaluated subsequent events through November 12, 2010, the date on which the financial statements were issued. Subsequent events identified have been disclosed within Note 7.